

M&A Market Trends & Activity

Sayer Energy Advisors' Perspective

Presentation to the
PADA Society



November 15, 2022

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Vice-President
Sayer Energy Advisors

PADA Presentation
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Sayer Energy Advisors

- 35 year history of oil and natural gas industry M&A services.
- Completely independent of the public markets – we do not get involved in financings.
- Managed by a team of individuals with varied backgrounds, each with significant related experience.

Sayer Energy Advisors

Corporate Advisory Services

- Divestitures, Mergers, Acquisitions.
- Valuations and Fairness Opinions.
- Expert Witness Assignments.

Industry Publications

- Well-known for Canadian M&A market analysis through our quarterly publication.
- Publish complete Canadian oil industry M&A and financing information.
- Complete listing of current Canadian oil & natural gas industry asset and corporate dispositions.



Overview

- Factors Affecting M&A
- Recent M&A Activity Metrics
- 2022 M&A Activity
- Recent Trends
- Summary

We Are in a Buyers' Market



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- We have been in a “*Buyers’ Market*” for a number of years.
- The “*Buyers’ Market*” will continue in Canada until we see more capital coming into the industry.

The Gap Between Buyers and Sellers

- The disconnect appears whenever there is instability in commodity prices.
- Buyers want to buy assets believing that the price of oil stay high, yet they make offers as if the price is going to fall.
- Sellers, unless pressured to sell, will not sell at low prices unless the prospect of higher prices is reflected in the offer price.
- A buyer which recognizes this can be successful if it offers value over and above that reflected in strip pricing.

Factors Affecting Prices for M&A Transactions

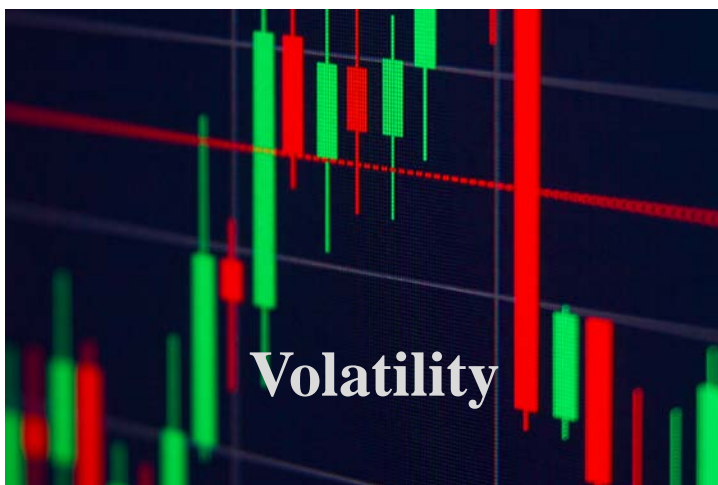


Factors Affecting M&A

- Uncertainty relating to pricing.
- Uncertainty relating to government.
- Uncertainty relating to environmental policies.
- A generally bad public feeling about our industry.
- Financing.

Factors Affecting M&A

- Uncertainty relating to pricing.
 - M&A prices are responsive to commodity price changes.



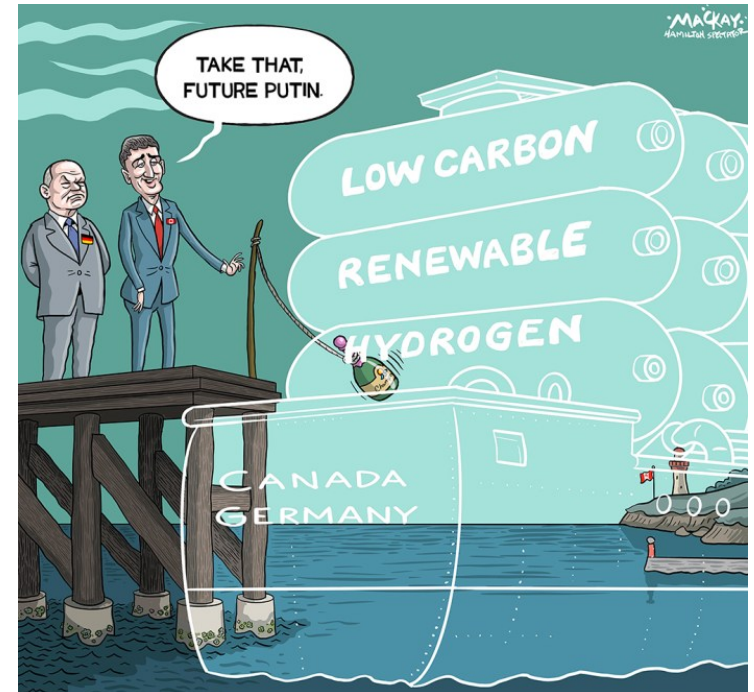
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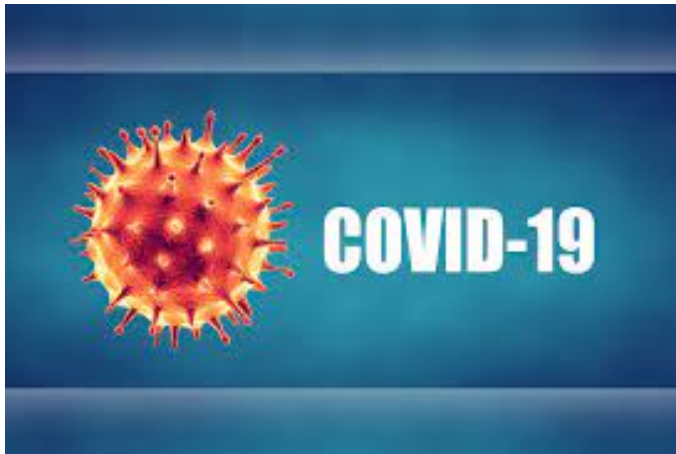
Factors Affecting M&A

- Uncertainty relating to government.
 - Provincial government
 - Uncertainty relating to handling of liability issues.
 - Federal Government: Canada & USA



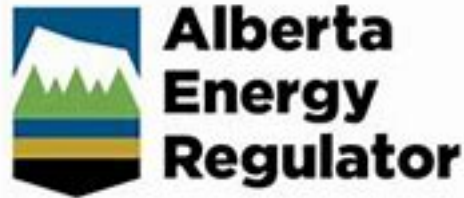
Factors Affecting M&A

- External Factors on Industry.



Factors Affecting M&A

- M&A & Liabilities – Still a priority
- Uncertainty relating to environmental policies.



- Directive 088:
 - Licensee Life-Cycle Management
 - *“introduces a **holistic** assessment of a licensee’s capabilities and performance across the energy development life cycle, which will be supported by the licensee capability assessment (LCA)”*

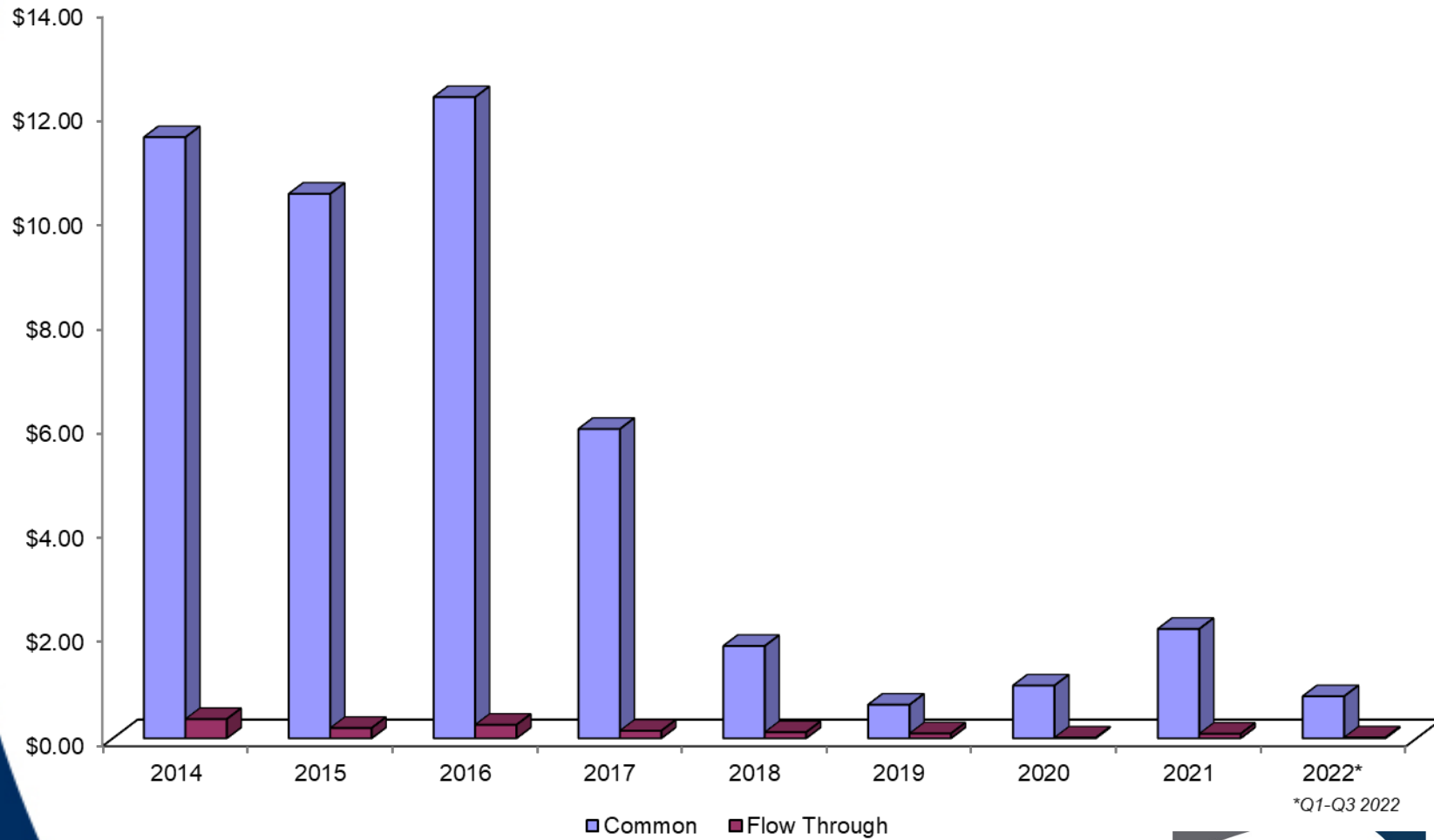
Factors Affecting M&A

- Uncertainty relating to government policies.
- Blueberry River First Nation

“B.C. Supreme Court declared that the Province breached the Treaty 8 rights of Blueberry River First Nations as a result of the cumulative impacts of natural resource development authorized by the Province over many years.”



Total Canadian Oil & Natural Gas Equity Financings (\$ Billions)

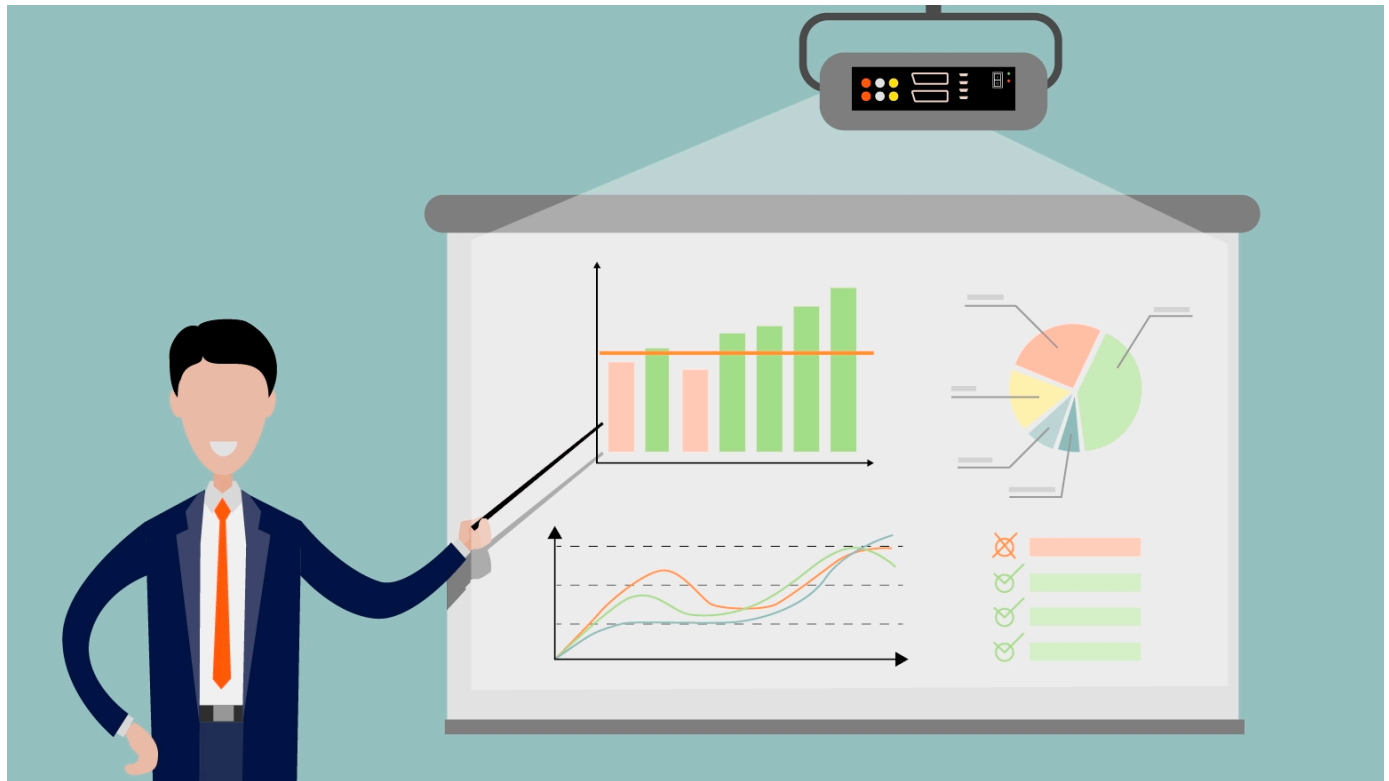


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Total Canadian Oil & Natural Gas Financings (\$ Billions)

- Financing activity is down in 2022 for **Q1-Q3**.
 - Including equity and debt issues, a total of \$2.5 billion in capital has been raised in 2022.
 - \$10.8 billion was raised in 2021.
 - \$10.9 billion was raised in 2020.
- Equity raised was down significantly in 2022 (**Q1-Q3**), with \$822 million raised vs. the \$2.2 billion raised in 2021 and \$1.0 billion raised in 2020.
- There was a significant drop in debt issues, with \$1.6 billion raised in 2022 compared to \$8.6 billion in 2021.
 - Likely due to higher commodity prices and recent spike in interest rates.

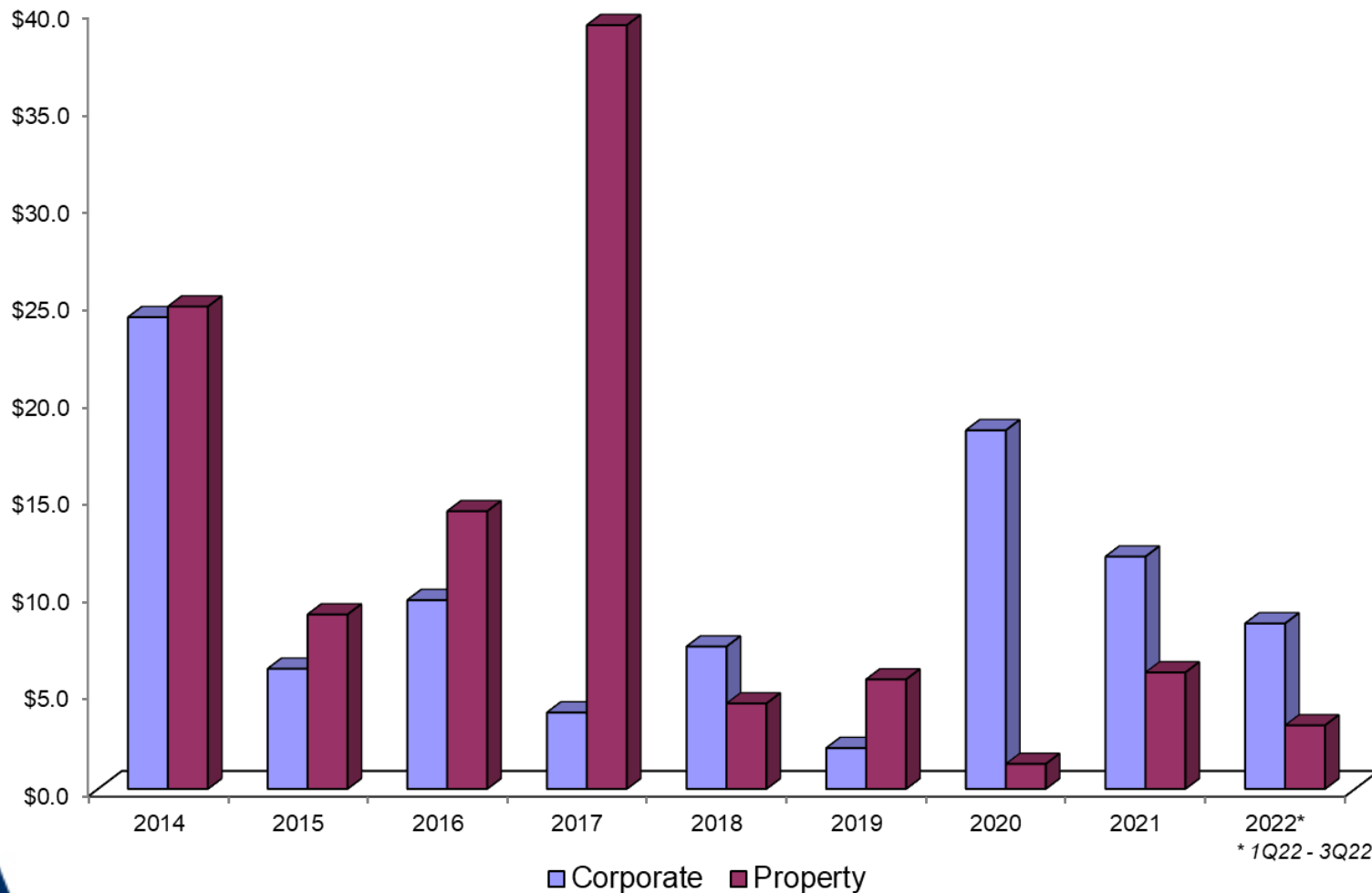
Recent M&A Activity Metrics



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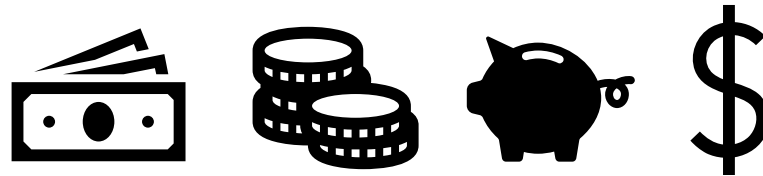
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Total Enterprise Value of Transactions (\$ Billions)



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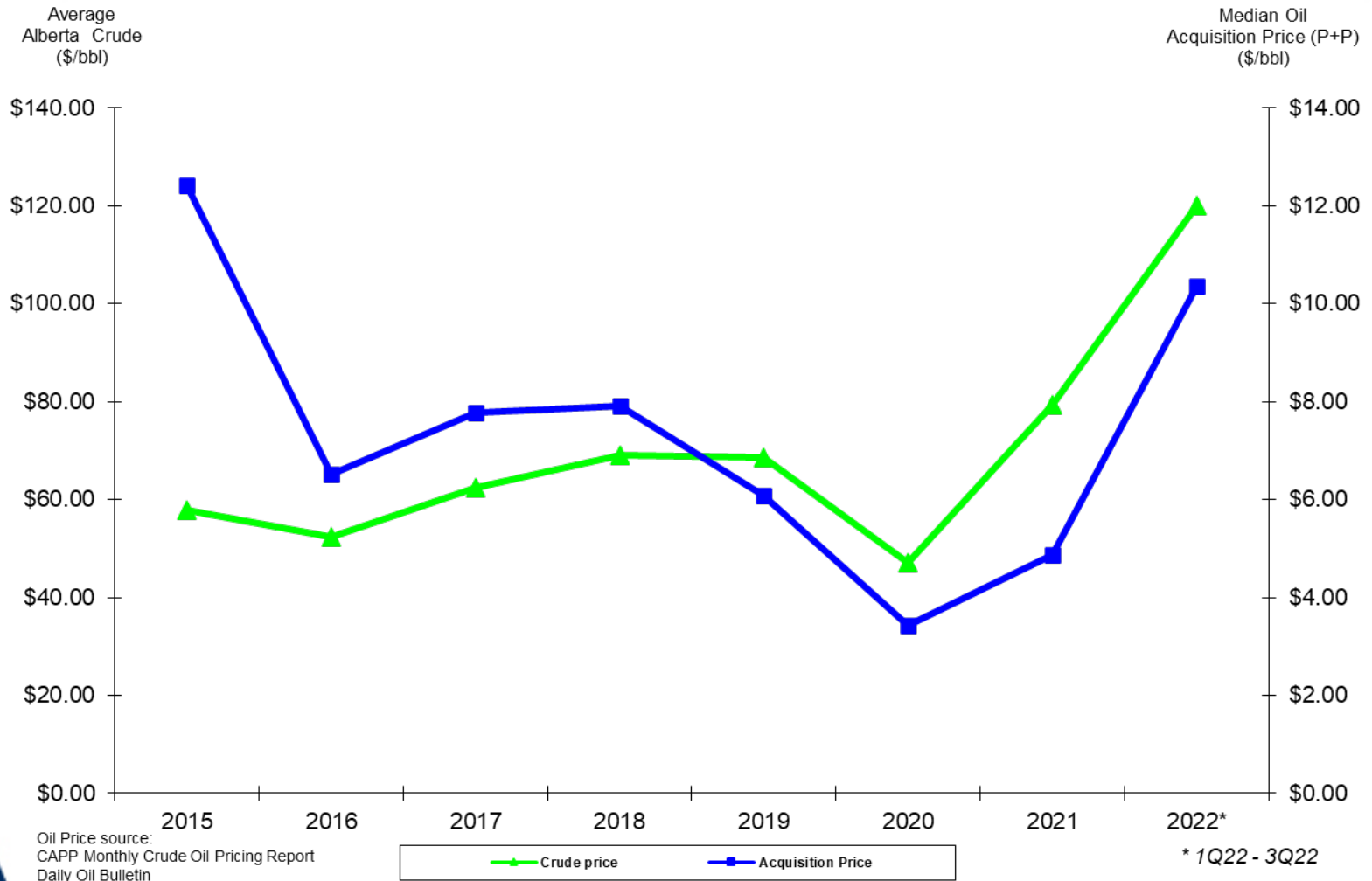
Cash Flow is King!



- Deals are being done on a cash flow basis, less consideration for liabilities.

Reserves and production based metrics remain less influential.

Correlation of Median M&A Price and Commodity Prices: **OIL**

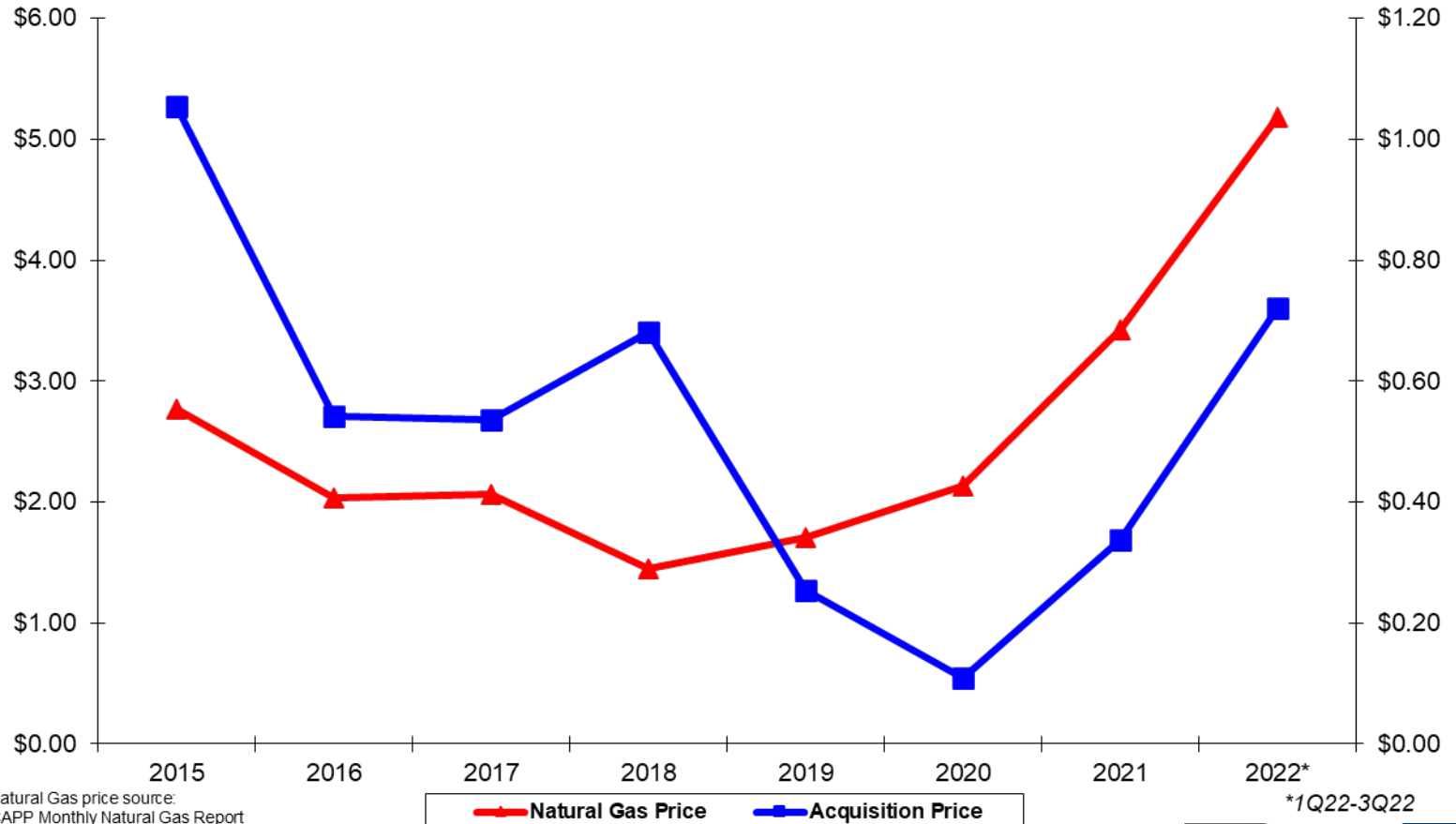


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Correlation of Median M&A Price and Commodity Prices: **NATURAL GAS**

Average Alberta
Natural Gas
(AECO-C)
(\$/MMbtu)

Median Natural Gas
Acquisition Price (P+P)
(\$/Mcf)



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More Cash Flow

- Recent rise in commodity prices = more Cash Flow.
- There is a lack of new capital (equity and debt) for funding M&A activity.
- No financings but deals still getting done.
 - Deals done from Cash Flow
 - Creative deal types

Uses of Capital

- Debt reduction a common theme.
- Asset Development.
- **Share buybacks** will continue in 2022-2023.
- M&A
 - **Consolidation.**
- Return of capital to shareholders via:
 - **Dividend increases.**
 - **Special dividends.**

Share Buy Backs - NCIB

- *“Ovintiv Inc. has received regulatory approvals for the renewal of its share buyback program... The number of shares authorized for purchase represents 10 per cent of Ovintiv's public float as of Sept. 19, 2022.”*



“Trudeau Tax Seen Spurring Flood of Buybacks It's Trying to Chill”

“Biden warns of windfall tax on ‘war profiteering’ oil companies”



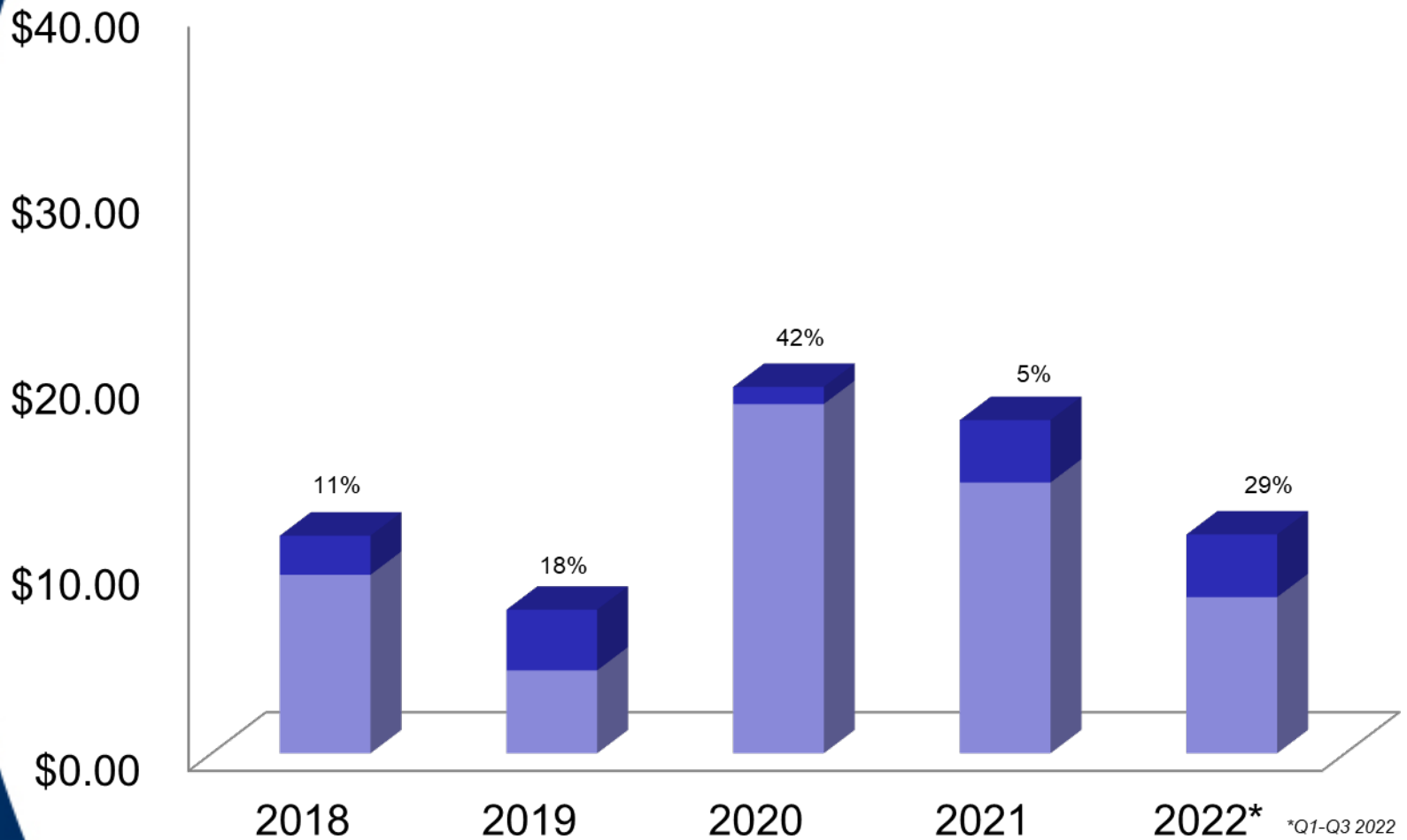
Consolidation

- Trend of **privately-held** oil and natural gas companies being **sold** to both publicly-traded and privately-held companies in 2022:



- Corporate deals have made up ~64% of enterprise value of M&A transactions to date in 2022.*

Total M&A Value vs. Total M&A Value Done By Private Entities (\$ Billions)



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Companies Sold in 2022

- Q1

 **PetrusResources**



Companies Sold in 2022

- Q2



Undisclosed Buyer



Companies Sold in 2022

- Q3



- Q4 Companies Sold to Date



Samoth Oilfield Inc.



Fourth Quarter Large Deals to Date

- Q4: Over \$1.3 billion to date



Teck Assets



enerPLUS Assets



TOURMALINE Assets
OIL CORP.



cenovus Assets
ENERGY



(RTO) Samoth Oilfield Inc.

Return of Capital to Shareholders



- Announced a 120% **dividend increase** on November 9, 2022.



- Announced a **special cash dividend** of \$0.50 per share on November 8, 2022.

Return of Capital to Shareholders



- *“Tourmaline intends to return a minimum of 60% of FCF to shareholders in 2022.”*
- Announced a **special dividend** of \$2.25 per share on November 2, 2022 and an 11% quarterly base **dividend increase**.
- Tourmaline also declared a Q3 2022 **special dividend** of \$2.00 per share on July 27, 2022, a **special dividend** of \$1.50 per share in May 2022 and a **special cash dividend** of \$1.25 per share in January 2022 along with an 11% quarterly base **dividend increase**.

Return of Capital to Shareholders



- Announced a **special cash dividend** of \$0.035 per share on October 26, 2022 and a 20% quarterly base **dividend increase** on July 6, 2022.
- *“Crescent Point’s total return of capital offering for shareholders includes a combination of a base dividend, accretive share repurchases and special dividends.”*

Return of Capital to Shareholders



- Announced a **special cash dividend** of \$0.20 per share on October 13, 2022.



- Announced a **special cash dividend** of \$1.50 per share on August 4, 2022.
- *“when the Company’s net debt reaches \$8 billion, which the Board sees as a base level of corporate debt, the Company will allocate additional free cash flow as incremental returns to shareholders”*

Return of Capital to Shareholders

- Inaugural dividends implemented in 2022



*(Announced in October 2021,
Declaration in January 2022)*

Other Trends – Creative Deals

- Several deals include:

- Vendor Take-back



- Deferred Payments



- Selling Royalties & Manufactured Royalties



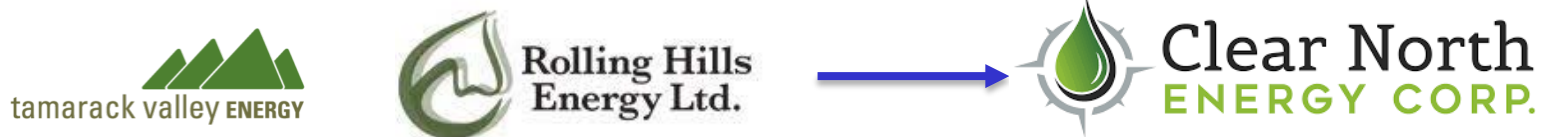
2022: More “Share for Share” Deals

- Continued use of shares as currency in deals.



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2022: Return of the SpinCo?



- We expect this recent trend to continue.
- SpinCo structure could bridge a value gap between buyer and seller and provide additional returns to shareholders.

Currently “On the Block” or “Reviewing Strategic Alternatives”

SASKATOON
Leaseholds Limited

 **ribbon creek**
RESOURCES INC.

 **EDGE**
CAPITAL

 **BEARSPAW**
PETROLEUM LTD.

 **SUN CENTURY**
PETROLEUM CORPORATION

 **CSRi**
CANADIAN SPIRIT RESOURCES INC.

Woodrush Royalty ULC

 **CEC**
NORTH
STAR

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 **SAYER**
ENERGY ADVISORS

Insolvencies

Not as prevalent now as it was a few years ago.



Current Insolvencies

- Number of insolvencies down. Currently there are **four**.

MNP
LTD



KPMG

Copetrex Oil & Gas Co. Ltd.



Grant Thornton

Diagonal Oil & Gas Inc.













































Strategic
OIL & GAS LTD.

- There are typically around **eight** oil and natural gas companies that go into receivership each year.
- In **2021**, there were **eleven** insolvencies, compared to eight in 2020.
- In **2016**, **28** oil and natural gas companies went into receivership or CCAA.

Summary

- The M&A market needs commodity price stability.
- Lack of cooperation from government will likely continue.
- LMR and environmental issues will continue to factor into M&A transactions.
- Fewer insolvencies and companies entering the M&A market unwillingly.
- More share-for-share and creative transactions will be concluded.
- Demand for oil and natural gas persists.

M&A Transactions Concluded by Sayer in 2022 to Date

<p>This announcement appears as a matter of record only</p>  <p>TSE</p> <p>has sold its interests in a number of ISO Containers</p> <p>The undersigned acted as financial advisor to TSE for this transaction</p>  <p>January 2022</p>	<p>This announcement appears as a matter of record only</p> <p>CHAIR RESOURCES INC.</p> <p>has sold its interests in the Fortgar area of Alberta</p> <p>The undersigned acted as financial advisor to Chair for this transaction</p>  <p>February 2022</p>	<p>This announcement appears as a matter of record only</p>  <p>Corl Oil Corp.</p> <p>has sold certain of its interests in southern Alberta</p>  <p>The undersigned acted as financial advisor to Corl for this transaction</p>  <p>February 2022</p>	<p>This announcement appears as a matter of record only</p>  <p>Avalon Energy Ltd.</p> <p>has sold its interests in the Foothills area of Alberta to</p>  <p>The undersigned acted as financial advisor to Avalon for this transaction</p>  <p>March 2022</p>	<p>This announcement appears as a matter of record only</p>  <p>Avalon Energy Ltd.</p> <p>has sold all of its oil & natural gas interests to</p> <p>TENTH AVENUE PETROLEUM CORP.</p> <p>for</p> <p>\$2.5 million</p> <p>The undersigned acted as financial advisor to Avalon for this transaction</p>  <p>April 2022</p>
<p>This announcement appears as a matter of record only</p>  <p>BASERADO</p> <p>has sold its interests in the Athabasca, Pembina and Midwestern areas of Alberta</p> <p>The undersigned acted as financial advisor to Baserado for this transaction</p>  <p>April 2022</p>	<p>This announcement appears as a matter of record only</p>  <p>Burgess Creek Exploration Inc.</p> <p>has sold its interests in the Peace River area of Saskatchewan</p> <p>The undersigned acted as financial advisor to Burgess Creek for this transaction</p>  <p>April 2022</p>	<p>This announcement appears as a matter of record only</p> <p>Certain oil and natural gas interests held by</p>  <p>SanLing Energy Ltd.</p> <p>have been sold through its receiver</p>  <p>The undersigned acted as financial advisor to SanLing for this transaction</p>  <p>April 2022</p>	<p>This announcement appears as a matter of record only</p>  <p>American Oil and Gas Ltd.</p> <p>has sold its interests in the Leduc area of Alberta</p> <p>The undersigned acted as financial advisor to American for this transaction</p>  <p>May 2022</p>	<p>This announcement appears as a matter of record only</p> <p>Certain oil and natural gas interests in Alberta held by</p>  <p>POINT LOMA Energy Services Ltd.</p> <p>have been sold through its receiver</p>  <p>The undersigned acted as financial advisor to BDO for this transaction</p>  <p>May 2022</p>
<p>This announcement appears as a matter of record only</p>  <p>EDMONTON COMMUNITY FOUNDATION</p> <p>has sold certain Free Title interests in the Midland area of Alberta</p> <p>The undersigned acted as financial advisor to the Edmonton Community Foundation for this transaction</p>  <p>June 2022</p>	<p>This announcement appears as a matter of record only</p> <p>CHAIR RESOURCES INC.</p> <p>has sold its interests in the Fortgar, Manegawong/Purple, Loyal/Hotchkiss, Ripon & Beaver Hills areas of Alberta</p> <p>The undersigned acted as financial advisor to Chair for this transaction</p>  <p>July 2022</p>	<p>This announcement appears as a matter of record only</p> <p>Certain oil and natural gas interests held by</p>  <p>SanLing Energy Ltd.</p> <p>have been sold through its receiver</p>  <p>The undersigned acted as financial advisor to SanLing for this transaction</p>  <p>July 2022</p>	<p>This announcement appears as a matter of record only</p> <p>LONGSHORE RESOURCES</p> <p>has sold its interests in the Conquest/Protest area of Alberta</p>  <p>The undersigned acted as financial advisor to Longshore for this transaction</p>  <p>August 2022</p>	<p>This announcement appears as a matter of record only</p>  <p>EDGE LTM Operations Ltd.</p> <p>has sold its multiple leasehold interests in Alberta</p> <p>The undersigned acted as financial advisor to Edge for this transaction</p>  <p>September 2022</p>
<p>This announcement appears as a matter of record only</p> <p>THE ESTATE OF GEORGE BENNETT DEW</p> <p>has sold certain Free Title interests in the Jasper area of Alberta</p> <p>The undersigned acted as financial advisor to the Estate of George Bennett Dew for this transaction</p>  <p>September 2022</p>	<p>This announcement appears as a matter of record only</p>  <p>Tolichasseo</p> <p>has sold its interests in the Braided Hills area of British Columbia</p> <p>The undersigned acted as financial advisor to Tolichasseo for this transaction</p>  <p>September 2022</p>	<p>This announcement appears as a matter of record only</p> <p>All the oil-bearing shares of</p> <p>CHERYL RESOURCES LTD.</p> <p>have been acquired by</p> <p>DELTA OIL CORP.</p> <p>The undersigned acted as financial advisor to Cheryl for this transaction</p>  <p>October 2022</p>	<p>This announcement appears as a matter of record only</p> <p>Certain oil and natural gas interests held by</p>  <p>SanLing Energy Ltd.</p> <p>have been sold through its receiver</p>  <p>The undersigned acted as financial advisor to SanLing for this transaction</p>  <p>October 2022</p>	<p>This announcement appears as a matter of record only</p>  <p>SIGNALTA RESOURCES LIMITED</p> <p>has sold certain non-operated land interests in Alberta</p> <p>The undersigned acted as financial advisor to Signalta for this transaction</p>  <p>October 2022</p>

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